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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission

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IN THE MATTER OF THE APPLICATION
OF PICACHO PEAK WATER CO., INC.,
FOR A RATE INCREASE

Docket No. W-02351A-07-0319

Docket No. W-02351A-07-0686

IN THE MATTER OF THE
APPLICATION OF PICACHO PEAK
WATER CO., INC., FOR AUTHORITY
TO INCUR DEBT TO FINANCE
WATER SYSTEM IMPROVEMENTS

COMMENTS ON STAFF REPORT

Picacho Peak Water Company, Inc. ("Company") hereby files comments on Staff Report for Picacho Peak Water Co., Inc. for a Permanent Rate Increase and for Authority to Incur Debt dated May 21, 2008 ("Staff Report").

1.0 PRELIMINARY STATEMENT

The Company has 14 customers and is seeking to borrow \$150,000 from the Water Infrastructure Finance Authority ("WIFA") to pay for nitrate treatment facilities.

1 The most cost-effective way to remove the nitrate is to install reverse osmosis equipment
2 at the point of use for the residential and small commercial customers. This will cost
3 approximately \$5,000, or 3.33% of the total loan.
4

5 Meanwhile, the large commercial water users – Bowlin's Travel Center and the
6 RV Park – will require large onsite reverse osmosis treatment plants. The plant for the
7 restaurant will cost approximately \$30,000. The plant for the RV Park, which has
8 hundreds of lots, will cost approximately \$90,000. WIFA requested that the Company
9 allocate another \$25,000 for engineering, installation, and cost-overruns. Hence, 96.66%
10 of the necessary financing will be driven by the large commercial users' needs.
11
12

13 While the Staff Report spreads the costs more evenly between the small and large
14 users, the Company believes it is entirely appropriate for the large commercial cost
15 drivers to shoulder more of the financial burden. Put another way, the Company does not
16 believe its residential and small commercial customers should have to subsidize the large
17 commercial customers. Therefore, the Company's revised rates, set forth in Exhibit 1,
18 appropriately require the large commercial customers to carry the bulk of the increase.
19
20

21 **2.0 RATES**

22 **2.1 Residential Rates**

23 Due to the Company's concern about the impact of Staff's proposed rates on the
24 residential customers, it is proposing a second set of rates that will generate Staff's
25 proposed revenue requirement, while still maintaining reasonable increases for the
26 residential users. Current rates for the 5 residential users generate approximately \$4,961
27
28

1 in revenue, and Staff has proposed \$13,890 for this class, which will result in nearly a
2 180% annual increase.

3
4 The Company proposes a more reasonable increase of 39% (\$6,910 in revenue
5 from this class) over the current revenue level for these customers. This shifts the service
6 cost more appropriately to the larger commercial users.

7
8 Because Staff proposed different commodity rates and tiers for the residential
9 users versus the commercial, the Company will continue this methodology, but propose
10 different tier breaks and rates to facilitate maintaining lower rates for the residential
11 customers. The Company proposes a monthly minimum rate of \$20, a 33% increase
12 from the current monthly minimum as opposed to Staff's proposed increase of 238%, or
13 \$50.70, for this class of users. The Company further proposes commodity rates of \$2.50
14 per thousand for the first 5,000 gallons, \$3.50 per thousand for the next 10,000 gallons,
15 and \$4.90 per thousand for all gallons per thousand in excess of 15,000.
16
17

18 **2.2 Small Commercial**

19 Current rates for the 8 small commercial (3/4") users generate approximately
20 \$19,204 in revenue, and Staff has proposed \$34,581 for this class, which is an increase of
21 80% in revenue for the year. The Company now proposes an increase of 89% (\$36,355 in
22 revenue from this class) over the current revenue level.
23
24

25 Staff has proposed to decrease the monthly minimum for this class by over 40%
26 from \$85 per month to \$50.70. The Company proposes a monthly minimum rate of \$80, a
27 decrease of less than 6% from the current monthly minimum. In addition, Staff proposes
28 only 2 tiers, with the break at 10,000 gallons for this class. The Company generally

1 agrees with Staff's approach, but proposes that the tier break point be 25,000 gallons for
2 this class.

3 4 **2.3 Large Commercial**

5 Current rates for the large commercial (2") customer generate approximately
6 \$7,663 in revenue. Staff has proposed \$19,470 for this class. The Company proposes a
7 198% increase (\$22,860 in revenue) over the current revenue level for this customer.
8

9 Staff has proposed to increase the monthly minimum for this class by 198% from
10 \$85 per month to \$253.50. The Company proposes a monthly minimum rate of \$500, a
11 488% increase from the current monthly minimum.
12

13 Staff proposes only 2 tiers, with the break at 50,000 gallons for this class. The
14 Company generally agrees with Staff's approach, but proposes the break point be
15 decreased to 25,000 for this class so that all commercial users pay higher amounts due to
16 the demands (and expense) large water users place on this system. This revenue
17 allocation approach is entirely appropriate in this case because the RV Park served by the
18 2-inch meter has an average of 200 units per month, maybe more, that use water from the
19 system, which calculates to less than \$10 per month per unit. ($\$22,860/12 \text{ months} =$
20 $\$1,905/200 \text{ RV Park units} = \9.55).
21
22

23 Therefore, the Company requests that the court adopt the revised rates proposed
24 by the Company set forth herein and in Exhibit 1.
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3.0 NON-RATE ISSUES

3.1 Meter Installations

Staff recommends that the Company install and maintain operable metering devices for the well and all customers within 30 days after the decisions in this matter is issued. The Company agrees with this recommendation, and in fact has already ordered the meters to be installed by a contractor. Nonetheless, to give the Company enough time to install the meters if problems arise, the Company asks for a 90-day deadline.

3.2 Distribution System Data

Staff recommends that within 180 days after the Decision, the Company must file documentation showing data relating to the distribution system. Approximately 10 years ago, a fire destroyed most company records, including system maps and other distribution system records. The cost to create this data and map is approximately \$30,000 to \$60,000. While the Company would like to create this data and map, it would have to borrow the money to complete this task. Knowing that adding another \$60,000 of debt would make the rates incredibly burdensome, the Company requests that this Staff recommendation not be adopted.

3.3 Public Notice

The Staff Report mentions that the Company did not file affirmation that it gave public notice for the finance application. On May 30, 2008, the Company filed this proof of notice.


1 **3.4 ADEQ Compliance**

2 The Engineering Report details water quality monitoring and compliance matters
3
4 that the Company either has, or is trying to, resolve. For example, the Engineering
5 Report explains that the Company is not delivering water that meets the water quality
6 standards for nitrates, which is why the Company is seeking the financing to purchase
7 equipment to treat the water for nitrates. The Company is monitoring nitrate levels
8 quarterly. Further, when testing indicated that the coliform MCL had been exceeded, the
9 Company immediately treated the system with an approved method and followed all
10 requirements for subsequent testing and reporting.
11
12

13 **4.0 CONCLUSION**

14 The Company requests that the court recommend an order consistent with the Staff
15 Report as modified by the Company's comments herein.
16

17 **MOYES SELLERS & SIMS**

18
19 
20 Steve Wene
21 Attorneys for Picacho Peak Water Co.
22

23 Original and 15 copies of the foregoing
24 filed this 9th day of June, 2008, with:

25 Docket Control
26 Arizona Corporation Commission
27 1200 West Washington
28 Phoenix, Arizona 85007

1 Copy of the foregoing mailed this
2 9th day of June, 2008, to:

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26
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Donnelly Herbert

EXHIBIT 1

PICACHO PEAK WATER COMPANY, INC.
PROPOSED REBUTTAL CUSTOMER RATES IN RESPONSE TO
STAFF REPORT FILED MAY 21, 2008

Customer Type	Current Rates	Staff Proposed	Company Ruttal	% Change From Staff	% Change From Current	Staff Change From current
Residential (5)	\$ 4,960.93	\$ 13,889.76	\$ 6,909.51	-50.25%	39.28%	179.98%
Commercial (8)	19,204.15	34,580.83	36,354.61	5.13%	89.31%	80.07%
2" Commercial (1)	7,663.26	19,470.23	22,860.23	17.41%	198.31%	154.07%
Total Bill Count \$ 31,828.34 \$ 67,940.82 \$ 66,124.35						
Staff Proposed Revenue Requirement \$ 66,400.00 \$ 66,400.00						
Rates						
Residential (5)	\$ 15.00	\$ 50.70	\$ 20.00	-60.55%	33.33%	238.00%
Commodity Rates - Per 1,000 gal						
All Gallons	\$ 3.40	\$				
Tier 1 - 1 to 3000 gallons		4.83				
Tier 2 - 3001 to 10000 gallons		7.25				
Tier 3 - over 10000 gallons		8.69				
Tier 1 - 1 to 5000 gallons			2.50			
Tier 2 - 5001 to 15000 gallons			3.50			
Tier 3 - over 15000 gallons			4.90			
Commercial (8)	\$ 85.00	\$ 50.70	\$ 80.00	57.79%	-5.88%	-40.35%
Commodity Rates - Per 1,000 gal						
All Gallons	\$ 3.40	\$				
Tier 1 - 1 to 10000 gallons		7.25				
Tier 2 - over 10000 gallons		8.69				
Tier 1 - 1 to 25000 gallons			7.25			
Tier 2 - over 25000 gallons			8.69			
2" Commercial (1)	\$ 85.00	\$ 253.50	\$ 500.00	97.24%	488.24%	198.24%
Commodity Rates - Per 1,000 gal						
All Gallons	\$ 3.40	\$				
Tier 1 - 1 to 50000 gallons		7.25				
Tier 2 - over 50000 gallons		8.69				
Tier 1 - 1 to 25000 gallons			7.25			
Tier 2 - over 25000 gallons			8.69			